

Message Text

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DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

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FM AMEMBASSY BONN

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USMISSION EC BRUSSELS

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AMCONSUL BREMEN

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USMISSION USBERLIN

CINC USAFE RAMSTEIN

CINC USAREUR HEIDELBERG

CINC EUR VAIHINGEN

C O N F I D E N T I A L BONN 00580

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: FRG INTERMINISTERIAL WORKING GROUP FORECAST
OF 1976 ECONOMIC POSSIBILITIES

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REF: BONN 19460

1. IN DECEMBER AN INTERMINISTERIAL WORKING GROUP MET FOR THE PURPOSE OF FORECASTING THE MACRO-ECONOMIC "POSSIBILITIES" FOR 1976, AS IT WAS PUT TO US BY A KNOWLEDGEABLE ECONOMICS MINISTRY CONTACT. HE SAID THAT IF NO NEW POLICIES ARE INTRODUCED, THE FIGURES THAT THIS GROUP DEVELOPED WOULD PROBABLY BE VERY CLOSE TO, IF NOT IDENTICAL WITH, THE "TARGETS" SET DOWN IN THE ANNUAL ECONOMIC REPORT OF THE FRG. THIS REPORT, PREPARED BY THE ECONOMICS MINISTRY, IS REQUIRED BY LAW AND WILL BE PRESENTED TO THE CABINET AND SUBSEQUENTLY TO THE BUNDESTAG ON/ABOUT JANUARY 28.

2. AS AN ADVANCE INDICATOR OF THE LIKELY CONTENTS OF THE ANNUAL ECONOMIC REPORT, WHICH WE WILL REPORT ON MORE FULLY WHEN IT IS FINALLY ISSUED, THERE FOLLOWS AN ITEMIZATION OF THE KEY DATA CONTAINED IN THE DECEMBER WORKING GROUP FORECAST:

(A) NOMINAL GNP WILL BE UP 9 PERCENT WITH REAL GROWTH SET AT 4.5 PERCENT. THIS REPRESENTS HALF A PERCENT HIGHER NOMINAL GROWTH AND THE SAME REAL GROWTH AS CONTAINED IN THE NOVEMBER FORECAST OF THE COUNCIL OF ECONOMIC EXPERTS (SEE REFTEL).

(B) THE 3 PERCENT INCREASE IN PRIVATE CONSUMPTION AND 5 PERCENT INCREASE IN PRICES FOR THIS NATIONAL ACCOUNTS ITEM ARE IDENTICAL WITH THE COUNCIL OF ECONOMIC EXPERTS FORECAST. THE SAVINGS RATE IS ESTIMATED TO AVERAGE 15 PERCENT.

(C) THE AVERAGE NUMBER OF UNEMPLOYED IN 1976, ACCORDING TO THE WORKING GROUP'S ESTIMATE, WILL BE 1.1 MILLION, OR ABOUT THE SAME AS IN 1975. THE NUMBER OF EMPLOYED, HOWEVER, WILL DROP 1 PERCENT IN 1976 AS COMPARED TO 1975. HERE TOO THERE IS NO DEVIATION FROM THE COUNCIL'S REPORT.

(D) THE NET FOREIGN BALANCE WAS ESTIMATED TO REACH DM 26 BILLION BY THE WORKING GROUP AS COMPARED TO THE

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DM 20.5 BILLION FIGURE CONTAINED IN THE COUNCIL OF ECONOMIC EXPERTS REPORT.

(E) THE SAVINGS RATE THAT THE WORKING GROUP ESTIMATED FOR 1976 WAS 15 PERCENT.

3. COMMENT. LAST YEAR THIS TIME WHEN THE FRG'S ANNUAL ECONOMIC REPORT CAME OUT IT CONTAINED "TARGETS" OF 2

PERCENT REAL GROWTH (OR 5.5 TO 6.0 PERCENT TOO HIGH IN
RELATION TO SUBSEQUENT PERFORMANCE) AND A DROP IN
EMPLOYMENT OF 1.5 PERCENT (AS COMPARED TO THE ACTUAL
DECLINE OF ABOUT 3 PERCENT). THE ANNUAL ECONOMIC REPORT
SUBSEQUENTLY BECAME THE FRG'S SUBMISSION TO THE OECD EDRC
ANNUAL REVIEW IN APRIL, AND IT IS POSSIBLE THE SAME
PATTERN WILL BE FOLLOWED THIS YEAR. HAVING BEEN BURNT
BY A SERIOUS OVERESTIMATION LAST YEAR, IT IS LIKELY THAT
THE GOVERNMENT FORECASTERS HAVE APPROACHED THEIR TASK
WITH MORE CAUTION THIS YEAR, ALTHOUGH THE OPTIMISTIC
BIAS INHERENT IN THE EXERCISE IS NOT TO BE DISCOUNTED.
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